

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2020/2021

BAC1644 – PRINCIPLE OF FINANCE

(All sections/Groups)

17 MARCH 2021

9.00am – 12.00pm

(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 4 pages (excluding cover page) with five(5) questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

- A. Who owns a corporation? How can agency relationship exist and what kinds of problem can arise? Give example for each of the situation above.

(8 marks)

- B. Lena Bhd has a debt-equity ratio of 1.5. Return on assets (ROA) is 8% and total equity is RM500,000. What is the equity multiplier? What is Return on equity and Net income?

(12 marks)

[TOTAL 20 MARKS]

QUESTION 2

- A. You are serving on a jury. A plaintiff is suing the city for injuries sustained after a freak street sweeper accident. In the trial, doctors testified that it will be five years before the plaintiff is able to return to work. The jury has already decided in favour of the plaintiff. You are the foreperson of the jury and propose that the jury give the plaintiff an award to cover the following: (a) The present value of the two (2) years' back pay. The plaintiff annual salary for the last two years would have been RM47,000 and RM50,000 respectively. (b) The present value of five (5) years' future salary. Assume the salary will be RM54,000 per year. (c) RM200,000 for pain and suffering. (d) RM15,000 for court costs. Assume that the salary payment are equal amounts paid at the end of each month. If the interest rate you choose is a 9% Effective Annual Rate, what is the size of the settlement? If you were the plaintiff, would you like to see a higher or lower interest rate?

(10 marks)

- B. Prepare an amortization schedule for a four-year loan of RM100,000. The interest rate is 12 percent per year and the loan calls for equal principal payments. How much interest is paid in the third year? How much total interest is paid over the life of the loan?

(10 marks)

[TOTAL 20 MARKS]

Continued...

QUESTION 3

- A. Bond J is a premium bond making annual payments. The bond pays 8 percent coupon, has a yield to maturity (YTM) of 6 percent, has 13 years to maturity. Bond K is a discount bond making annual payments. This bond pays 6 percent coupon, has a YTM of 8 percent, and also has 13 years to maturity. What are the prices of these bonds today? If interest rates remain unchanged, what do you expect the prices of these bonds to be in 1 year, 3 years, 8 years, 12 years, 13 years.
- (10 marks)
- B. Mall Bhd has an odd dividend policy. The company has just paid a dividend of RM14 per share and has announced that it will increase the dividend by RM6 per share for each of the next four (4) years and then never pay another dividend. If you require 14 percent return on the company's stock, how much will you pay for a share today?
- (4 marks)
- C. Lamp Bhd is growing quickly. Dividends are expected to grow at a 30 percent rate for the next three (3) years, with the growth rate falling off to a constant 6 percent thereafter. If the required return is 11 percent and the company just paid a RM2.75 dividends, what is the current share price?

(6 marks)

[TOTAL 20 MARKS]**QUESTION 4**

- A. Lighten Bhd has the following mutually exclusive projects available. The company has historically used a 2.5 years cut off for projects. The required return is 10 percent.

Year	Project J	Project K
0	-RM150,000	-RM215,000
1	RM80,000	RM90,000
2	RM65,000	RM78,000
3	RM105,000	RM69,000
4	RM80,000	RM70,000
5	RM124,000	RM98,000

- (i) Calculate the payback period for both projects.
- (ii) Calculate Net Present Value (NPV) for both projects.

(5 marks)

(5 marks)

Continued...

(iii) Which project, if any, should the company accept?

(2 marks)

B. You are trying to determine whether or not to expand your business by building a new manufacturing plant. The plant has an installation cost of RM17 million, which will be depreciated straight-line to zero over its four-year life. If the plan has projected net income of RM1,735,000, RM2,105,000, RM1,954,000 and RM1,286,000 over these four (4) years, what is the project average accounting return (AAR)?

(8 marks)

[TOTAL 20 MARKS]

QUESTION 5

A. You are given the following information concerning Tripology Bhd:

Debt: 9,000 6.2 percent coupon bonds outstanding, with 20 years to maturity and a quoted price of 104. These bonds pay interest semiannually.

Common stock: 225,000 shares of common stock selling for RM64.50 per share. The stock has a beta of 0.85 and will pay a dividend of RM2.70 next year. The dividend is expected to grow by 5 percent per year indefinitely.

Preferred Stock: 8,000 shares of 4.5 percent preferred stock selling at RM94 per share. Par value is RM100.

Market: A 12 percent expected return, a 5 percent risk-free rate, and a 35 percent tax rate.

Calculate the Weighted Average Cost of Capital (WACC) for Tripology Bhd.

(12 marks)

B. Steel Bhd is considering a change from its current capital structure. Steel currently has an all-equity capital structure and is considering a capital structure with 25 percent debt. There are currently 4,500 shares outstanding at a price per share of RM60. Earning Before Interest and Tax (EBIT) is expected to remain constant at RM33,000. The interest rate on new debt is 7 percent and there are no taxes.

Continued...

- (i) Rena owns RM18,000 worth of stock in the company. If the firm has a 100 percent payout, what is her cash flow?

(2 marks)

- (ii) What would her cash flow be under the new capital structure assuming that she keeps all of her shares?

(6 marks)

[TOTAL 20 MARKS]

End of Paper